Sullivan County Delegation
Special Meeting with Auditors/Accountant
Wednesday, May 10, 2006, 1 PM

Delegates Present: Representatives John Cloutier - *Chair*, Larry Converse – *Vice Chair*, Tom Donovan – *EFC member*, Peter Franklin (arrived @ 1:29), Harry Gale Jr., Charlotte Houde-Quimby – *EFC member*, Stephen Prichard *EFC member* and Joe Osgood.

Delegates absent: Brenda Ferland, Christopher Irish and Arthur Jillette Jr., James Phinizy and Beverly Rodeschin

Other attendees: Commissioners Donald S. Clarke – *Chair*, Ben C. Nelson – *Vice Chair* and Ethel Jarvis – *Clerk*; Jeffrey Graham - *Graham & Graham Accountants*; Sheryl Stephens-Burke – *Melanson and Heath* (FY04/FY05 county auditors) and Mark Pitkin – *County Treasurer*; Rebecca Miller – *Eagle Times staff reporter*.

The meeting was delayed awaiting the arrival of several delegates.

1:18 Representative Cloutier brought the meeting to order.

Rep. Cloutier thanked all for coming and introduced Jeff Graham from Graham & Graham and Sheryl Stephens-Burke of Melanson & Heath. Cloutier reminded all they voted at the March 24th meeting to request a third party meeting with the auditors and accountants to discuss concerns they have regarding the county's financials statements and books. He added, this is not to imply any employee or elected official is not doing his/her job, but the delegates are having a hard time understanding financial things. The Chair opened the meeting to the Delegates to ask questions.

Rep. Donovan pointed out most of the delegates have a strong human services backgrounds and not fiscal. He noted they are provided a lot of info which is contradictory, or changes often – due to definitions (MQIP/Proshare account) – and somewhat confusing. He continued noting, compounding this was a different communication structure, with a power struggle of responsibility between delegates and commissioners, and exasperated with bringing in Genesis. He feels they owe it to constituents, taxpayers, to understand the full situation in order to be comfortable explaining it.

Ms. Stephens-Burke confirmed receipt of the delegate's questions forwarded from Rep. Cloutier. She pointed out there were several questions about same issue, Proshare and MQIP. She indicated she reviewed the audit work they did, in particular the 6/30/2005, which was found to be recorded in payables and was all accounted for in the time period. She noted she had seen Rep. Franklin's written questions about specific line items and the response from the Commissioners/County Manager, which had explained it accurately. Ms. Stephens-Burke is confused about what Franklin meant as "earmarked", when monies come in from state it's recorded as revenues to General Ledger and when the year rolled over it would have ended in fund balance.

1:29 Representative Franklin arrived.

Mr. Franklin noted he wrote three letters to Ms. Violette and received answers from the Manager. He asked if Ms. Stephens-Burke received copies and she confirmed yes. Ms. Stephens-Burke, Mr. Graham and Rep. Franklin discussed revenues received in different years with expenses in other years. Mr. Graham used the easel to review receipt time frames for Mr. Franklin and clarification of financial statements for year-end and data entered. Mr. Franklin reviewed NH State HHS documents he held with Ms. Stephens-Burke and Mr. Graham and discussed how it would be reflected in year-end figures. She confirmed she could review their audit records on an item he had not brought up in his previous letter, but was noting now, that it was paid in 2006, not paid in 2005, but may have been included on the accrual basis account. She would need to review.

Mr. Donovan asked about accrual / cash basis and how it compared to what they discussed. Ms. Stephens-Burke noted they match revenues/expenses in point in time and financial date. She noted they do tests to make sure things are cut off properly, they go in to the next fiscal year, they look at the disbursements made in July and August and take a sample as auditors to make sure it's properly recorded; so, "you can be fairly confident that the fund balance you are working with on the material basis is a mathematical calculation used by auditors, is correct".

Mr. Graham began to demonstrate examples of monies at year-end, when Mr. Franklin interrupted to say that was perfectly clear, but his questions pertained to why ½ was in one year and ½ in the other. Mr. Graham discussed different scenarios, depending on obligations and when books were closed. Mr. Donovan asked, hypothetically, if books are ever reopened to go back for any major event. Ms. Stephens-Burke noted on prior period, when audits are complete, generally, it's not material to the financial statements with an amount of $94,000.

Mr. Franklin wanted to go on to discuss $466,815.24. Stephens-Burke confirmed this was the ProShare figure to be returned to the state. He then changed his mind, requesting them to start with $474,876, which he believes was the received ProShare payment the County received for 2005. He asked where it appeared as revenue. Ms. Stephens-Burke noted it appears on a general ledger line item, but appears at a decrease of around $8,000, for our purposes it ends up in the same line item. Rep. Franklin indicated he feels it has not been recorded, and finds it very misleading. HE referred all to look at a sheet labeled ProShare and noted the state wired in on June 30th $1,780,000 and on the 30th the State wired out $1,305,000, while the County retained $474,876, amount of ProShare sent to the County for 2005. He then noted the right column reflects $466,815.24, which he said has nothing to do with 2005 ProShare, but represents two months of 2003 and a full year of 2004 – money due back to HHS due to agreement Commissioners signed with HHS back in 2004. He noted money was supposed to be escrowed or put aside in someway and not used until they were told that all questions and concerns were settled. He indicated they were told the money had been "earmarked" and if "earmarked", Mr. Franklin feels, somewhere, possibly in the general ledger, there should have been a notation on those funds and carried forth, but those numbers never appeared anywhere and there was no liability on the books of $466,815, "so that in fact you have not recorded it, and you have taken the money out of $474,000 not put on books and paid another amount, also an expenditure not recorded on the books – a whole off the book transaction". Ms. Stephens-Burke provided her interpretation of the two transactions and how they were recorded. She noted, by his narrative, when they were recorded, they may have placed the two transactions in different accounts. Mr. Franklin discussed a statute required of monies paid by town/county if there is no appropriation for it, and feels there was no appropriation for it. He noted the $466,815 does not appear as revenue. Ms. Stephens-Burke disagreed with Mr. Franklin's interpretation, noting all was on the books but netted together. Commissioner Clarke noted ProShare is an attempt by Federal government to true up the difference between the Medicaid and Medicare reimbursement rate, the greater the difference the more ProShare there is and MQIP was put in to place to increase the Medicaid rates, so that if we knew the bed tax bill was successful, it would reduce the ProShare amount. Mr. Clarke noted they never expected the difference to be what it was, or when it was going to be received, and explained the numbers were not provided by the State in an expedient time frame. At this point Rep. Franklin interrupted to argue the years represented by the ProShare amount disbursed, and indicated they were confusing the years. Mr. Graham clarified for Mr. Franklin what Ms. Stephens-Burke just reviewed and how the amounts are reflected on the books. Mr. Franklin then questioned, "*Can county pay any expenses not budgeted*?" "*What is point of a budget*?" Mr. Graham discussed a scenario of how they might have recorded it differently, but the other way is not misleading, it's just condensed. Mr. Franklin noted what he's asking is, "*Is it done properly or not done properly*?" Mr. Graham again noted there are two ways to look at it. Mr. Donovan asked "*Are we in any different fund balance shape*?" Ms. Stephens-Burke confirmed no. She noted a better way of showing it for better clarification in the future would be to have another revenue line and noted there was no specific account set up to segregate funds. Mr. Donovan noted in retrospect, if that were the case where funds covered two months of one year and the balance in the next year, would they have made a different type of entry. Ms. Stephens-Burke confirmed no and confirmed why. Mr. Graham noted whenever possible for disclosure for ease of recording disclosure. Mr. Franklin noted "*It's not that there is money missing; the bottom line is the bottom line and that's not going to change. What's important particularly for delegate members is to have an accurate knowledge of where the monies come from and where the monies go. It's not clear how much money we received from ProShare, MQIP and the State and from everywhere else unless all the monies show up, and particularly at a time when we are concerned about what our relationship with Genesis should be, and we are told, for example, Genesis is saving us great deals, great amounts of money, and Genesis is our salvation and without them we would not be able to operate, we would be in the red. And, in fact, we are not showing to the delegation how much income there has been and some of it is not being shown in a way that makes it clear how much we are getting from ProShare and MQIP and when*". Mr. Graham indicated he could help him if he wanted to always see the gross dollar amount. Ms.

Stephens-Burke concurred noting they could expand the GL chart of accounts. Mr. Graham noted he could direct them not to net these monies in the future and how monies coming in could be reflected. Mr. Franklin commented on the monthly summary reports they receive and columns reflecting "month revenue" or "month expenses" and "Year To Date" and now the "Year To Date" and the month are same so it's a useless column. Mr. Graham noted all that information is available through the software. Mr. Franklin noted he tried to contact Mr. Graham about this, as those numbers would be helpful to him. He again disputed monies he saw reflected on the previous reports with what he considered actual. Ms. Houde-Quimby noted they have been told they have fiscal oversight over the county, and would like to see a comparison to other counties on how they account for ProShare and MQIP. Ms. Stephens-Burke noted the form used at the end of the year, the MS-42 form, is a standard chart used by all counties. Ms. Houde-Quimby showed a sheet illustrating Grafton County budget, and compared it to Sullivan County. Mr. Clarke noted the simple answer (to their confusion) is that they keep asking for (more) information, which they keep giving to them. Mr. Graham noted that someone probably noticed there was not a specific line for this specific entry, and so they associated it with another line. Ms. Houde-Quimby referred back to a statement made by Mr. Gil de Rubio at their last meeting when he mentioned, prior to Genesis there was a 2 million deficit; she noted that sent them diving at the books to find out where the deficit was, how it got corrected, where we are relative to the deficit and where we are relative to projected funds. She asked if there was any easy way to do that? Mr. Graham referred back to Trial Balance and his interpretation. Ms. Stephens-Burke discussed a transfer. Commissioner Jarvis discussed an amount of $399,533 in year 2004 that could not be spent, it was red flagged and could not be spent and disappeared in the general fund and not used to help out the situation in '05, her questions was "*Why was this not treated as income and added to the $8,000 to reduce the taxes?*" Ms. Stephens-Burke noted the $399,533 came in '04, and would have been recorded as revenue in '04, and when the year was closed would have gone to the nursing home fund balance, remaining there as equity to begin '05. She added it is not added to the '05 $8,000, as it happened in two fiscal years. Rep. Franklin discussed the ProShare sheet received from the county and the amount that could not be spent; and how the Delegates, the press and the Commissioners are told at times there is monies that cannot be spent or it's "earmarked" or it's "kind of being held aside and we won't spend it", and trust now is gone, because in deed that $399,000 never occurred to anyone until we sent someone out to see if it was "earmarked" and it was spent and we did not know about it. If we are going to have books we can't trust, that's not why we have auditors, treasures, accountants and the whole purpose of this exercise is to get the books open, transparent and accurate as they haven't been up to now. He noted the Annual report in the summary of revenues for June of 05 we received MQIP monies of $1,943,478.51 and the YTD reflects $2,929,899. He discussed the million received in one year and some received in July. He noted it was mentioned it took a 1.6 to balance the nursing home budget, and discussed figures in the book, which he feels are not accurate, and feels it does not make sense when compared to the 2 million-deficit statement. Ms. Stephens-Burke and Mr. Graham noted that "earmarking" is not a normal accounting term, and discussed again how the figures were entered in the funds, it never left fund 40 and stayed, rolled forward as equity, and available for subsequent years. Mr. Mark Pitkin noted "ear marking" is on a cash basis, there was no deferred liability on books, it was a cash ear marking to cover the bill from the State, should we receive it. Ms. Stephens-Burke confirmed that was correct. Mr. Pitkin and Ms. Stephen-Burke confirmed if they view temporary investments during the time it was earmarked, the cash never fell below the earmarked amount. Rep. Prichard spoke noting he feels it's "*unfortunate that it's implied somehow they don't trust the data, that's unfortunate, because the fact is we do. The fact they don't understand it, or have the tools to understand is our problem not your problem, and there may be a communication problem, that is there may be a way to present data that we can better get their heads around*", "*most of us, at least, feel that what you guys do is terrific and we have a hard time getting our heads around it and I'm not all that sure whether we should be given the responsibility to oversee and try to understand this, because we are not financial people*", "*there may be a need for a redefinition of our task as Executive Finance committee so that we don't have to go through this process every year to get some kind of understanding ... it's a very expensive process for the county to go through. So we need a better definition of what we are going to do and what we are responsible for and how we come to you folks.*" Mr. Graham noted these are their financial statements – in order for them to do their jobs they must understand more than a basic level of what these things mean as they are asking them to accept responsibility for the financials statements of the county at the end of every year. He feels they should be informed. Mr. Graham discussed the different layers of communication between State, Commissioners and staff. Rep. Donovan noted there was definitely a trust issue in the Delegation, and pointed out the Delegation must approve of the money in the budget and must spend time in reviews. He noted his concern is with the "rhetoric", for example a figure thrown out about deficit and tax money to supplement to balance the nursing home out and how we are in a surplus and feels some of those are floating numbers; but feels the rhetoric influences decisions that may or may not be made. He is also concerned about the way monies, bills, revenues, are booked and how one can make that 2 million go to 1.5, or down to 1 or up to 3, and feels it's most crucial now to be on the same page so they can make better decisions when it comes to huge contracts presented to them. Ms. Stephens-Burke concurred running a 20 million dollar operation with a huge responsibility, and noted with governmental entities there should be a financial expert, a CPA, someone to give you an overview and read to you the reports. Commissioner Nelson concurred with Rep. Donovan there does seem to be a lot of rhetoric but feels the worst has been heard today with Rep. Franklin. He pointed out they had Jim Fredyma (HHS), the accountants, the auditors and Franklin still throws the rhetoric around, which Mr. Nelson finds irresponsible. Rep. Franklin suggested Rep. Prichard view Chapter 25 for their responsibilities and he referred back to the 2004 agreement signed by Adler, Clarke and Nelson and the statement to place funds in escrow, in the agreement. He feels an escrow account should have been established. Mr. Graham noted if they feel they have something not being answered, put it in writing, and it should be an easy answer coming back.

Rep. Gale asked "*Should I feel uncomfortable about the annual report I used to vote an appropriation at the last delegation meeting provided by you?*" Ms. Stephens-Burke noted "*the audit financial statements have a clean opinion, meaning there're were no exceptions and presented in accordance with generally accepted accounting principals* *which are the guidelines for financial reporting, they are materially correct in our opinion as auditors*". Commissioner Jarvis noted to Rep. Gale the audit was not done when they voted the appropriations in June. He noted when he voted the appropriations in June, "*did they have to the best of your knowledge an honest accounting of the numbers given to them*?" Stephens-Burke reiterated they provided a "*clean opinion at the end of the year (FY05), and at the end of the prior year (FY04), so if they were basing their projections on audited reports they are all clean opinions*". Mr. Graham noted he was not aware of any major or minor change made to the books that would render the numbers that might have been used back here at end of June 05 materially incorrect. Mr. Graham discussed the request made to their company to do a 9-month trial balance, which could be used as an indicator of end of year.

Rep. Franklin asked if part of Mr. Grahams duties were to train the office staff on how to keep and manage the books, and if so, is it an on going – "*year after year, after year. Or, can they expect at some point staff that can do normal regular bookkeeping and then have an audit, or will it be necessary to have additional accounting service besides what we have in the front office*". Mr. Graham, since he started, he has received calls, e-mails, letters or been at meetings where people (from the office) ask for my opinion on what the transaction should look like and has answered to the best of his ability, actually referred some to Sheryl Stephens-Burke, so yes, I've been asked to help with those day to day things, month to month, quarter to quarter. He indicated, the nursing home is a highly technical accounting project, that's ever changing due to MQIP, Medicare, someone might understand the current system then it changes and that person should have additional training to change with it, it's hard to predict what might happen and system requirements in future. They did a major accounting software change – I think for the better; there are still a few glitches for the most part have been worked out. Along the line there have been difficult things thrown at the various people that have been here and believes they have done a fairly good job, and certainly, if you've got one or two transactions that didn't get hit in 20 million, he feels he'd give them a "darn good grade".

Rep. Prichard asked what his responsibility, accountability and liability was as an Executive Finance Committee member, in order for him to make clear distinctions what he should be doing as he feels confused; unsure where it would come from but feels someone in the county could help. Rep. Houde-Quimby pointed out Attorney Hathaway was scheduled for a session regarding this issue, which was never followed through on, and wondered if it would be useful now. Commissioner Clarke spoke comparing their duties to towns: the delegates are a legislative body and the Commissioners like the selectman/administrative body; as a legislative body they vote and look to the Commissioners for accountability - that it's done properly. He also noted they should not have any personal liability if there is something wrong - the County has insurance through Primex if something goes wrong regarding that issue.

The Chair thanked all for driving so far to act as third party in the Delegates attempts to understand the accounting, and improve the climate to continue on to other issues.

3:35 The meeting was adjourned.

Respectfully submitted,

John R. Cloutier

John Cloutier, Chair
Acting Clerk
Sullivan County Delegation

JC/s.j-c.